

SCA5 (Hancock/Mitchell): Reforming Inequities in Commercial Property Tax
Annual Reassessment of Commercial Properties
June 9, 2015

SCA5 (Hancock/Mitchell) eliminates the inequities, loopholes and negative economic impacts of the current acquisition-value assessment system. SCA 5 does the following:

- ✓ Reduces revenue losses due to under-assessment of commercial property by as much as \$9 billion annually.
- ✓ Helps stop the tax shift to homeowners from commercial property: in 1978, residential property paid 55% of property taxes, businesses paid the rest; today, residential property pays 72% while commercial, industrial and agricultural property pays 28%.
- ✓ Reduces incentives to increase other local business taxes by restoring the commercial property tax base.
- ✓ Restores fair competition among commercial properties so that owners pay the same share of taxes for the same services without regard for when they purchased the property. Half of business property is at or close to market value; a small minority has figured out to game the system to escape paying their fair share for the last 30-40 years.
- ✓ Remove perverse incentives that discourage new investment and smart growth.

SCA5 does the following:

- Reassesses commercial and industrial property to fair market value annually, after phase-ins.
- Exempts business personal property such as business equipment up to \$500,000, taking 90% of businesses off the personal property tax rolls. This benefits small businesses whether they own or rent.
- Provides for a two-step phase-in of annual re-assessment:
 - In the first year, assessors would re-assess the half of commercial properties with the oldest assessments, including assessments dating back to 1975-76. This first tranche of re-assessed properties, those facing the larger increases, would have a three-year phase-in before paying their taxes based on the full assessed value.
 - In the second year, assessors would re-assess the other half of properties, almost all of which are at or near market value today. This second tranche would get a two-year phase-in so that by the third year all commercial properties would be re-assessed annually.
- Provides an additional phase-in for five years for smaller businesses that own their own property (worth less than \$3 million) which are operated on the site owned by the small business owner. For longtime small businesses, this gives them time to adjust.
- Allocates the increased revenue within each county according to current property tax allocation among local governments, including school districts, community colleges, cities, counties and special districts.

- For cities, counties and special districts, the funding is distributed according to existing property tax allocation formulas, allowing local communities to re-invest in local services, including public safety, infrastructure, health care, mental health, parks, libraries and other community priorities.
- For the school share of the property tax, the revenue would be pooled statewide in the Local School and Community College Property Tax Fund, counted over and above the Proposition 98 guarantee, and distributed according to the Local Control Funding Formula.
 - The measure includes strict provisions to prevent the funding for schools from being used for any other purpose.
 - This approach assures that this additional funding is new revenue to schools and community colleges.
 - It addresses issue of equalization of school funding to avoid constitutionally prohibited disparities in funding per student.
- Provides funding for direct costs of county assessors in implementing the measure, subject to a vote of the board of supervisors. These costs would be borne by the county, cities and special districts, but not school districts, consistent with the current practice.
- Reimburses the state for state revenue losses to both the general fund and Proposition 63 revenues resulting from higher personal income tax and corporate income tax deductions for property taxes paid by commercial and industrial property owners.
- Adds on-line transparency and accountability for local governments and schools similar to those included in Proposition 30.